

Page Denied

Priority Handling

DCA FILE *105C7*
RECEIPT # _____

Record **Congressional Action**

SUBJECT:

Miami Herald Article - "Grocery Allegedly Bilks U.S. of Contra Aid"

FROM:

EXTENSION

DATE SENT

REQUEST NUMBER

23 May 86

TO: (Officer designation, room number, and building)

DATE

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OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after comment.)

1.

C/PP

2.

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3.

DC/LA/DO

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C/LA/DO

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EPS 2D45

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C/EPS

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Counsel/DDO 2E14

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ADDO

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DDO

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OCA

11.

12.

RETURN TO:

SUSPENSE DATE:

FORM 10-84 4283

Priority Handling

Congressional Action

Priority Handling

Congressional Action

SUBJECT:

Miami Herald Article - "Grocery Allegedly Bilks U.S. of Contra Aid"

FROM:

EXTENSION

DATE SENT

REQUEST NUMBER

15 May

TO: (Officer designation, room number, and building)

DATE

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OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after comment.)

1.

LA

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EPS/LG

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HPSCI Staffer Dick Giza would like to know what, if anything, we know re the attached news article.

Tks,
Mf

SUSPENSE DATE:

ASAP

RETURN TO:

FORM 10-84 4283

Priority Handling

Congressional Action

PLEASE TRY AGAIN.

PL2

RANK 2 OF 2, PAGE 1 OF 8
FRI MAY 09 1986 ED: FINAL
SECTION: FRONT PAGE: 1A LENGTH: 43.56" LONG
ILLUST: photo: Supermercado Hermano Pedro in Tegucigalpa
(HONDURAS BUSINESS)
SOURCE: SAM DILLON Herald Staff Writer
DATELINE: TEGUCIGALPA, Honduras —
MEMO: AROUND THE AMERICAS

.....
GROCERY ALLEGEDLY BILKS U.S OF*CONTRA* AID*

A corner grocery supplying Nicaraguan*contra*rebels at American expense billed the U.S. government for thousands of uniforms that never existed, reliable sources say.

The sources say the Supermercado Hermano Pedro is also a front to disguise the participation of several Honduran military

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officers in*contra*supply efforts, while Honduran public records and officials say the grocery store has hidden at least \$3.2 million in U.S. payments from Honduran tax authorities.

A U.S. official with knowledge of*contra*operations said U.S. authorities apparently tolerated these dealings in recent months as a way of rewarding key Honduran army officers for cooperation with the Nicaraguan rebels.

The allegations provide new insight into irregularities suspected in the*contra*supply network and the difficulties the Reagan administration faces as it tries to convince Congress to nearly quadruple U.S. funding for the contras. A congressional subcommittee voted Thursday to subpoena records of Miami bank accounts belonging to the contras or their suppliers.

Hermano Pedro, a crowded shop tucked into a stucco building in a working-class Tegucigalpa neighborhood, has been the largest single recipient in Honduras of payments from \$27 million in so-called humanitarian*aid*that Congress voted to give the contras last summer.

According to classified U.S. records, the State Department's Nicaraguan Humanitarian Assistance Office, which supervises the rebel*aid*program, paid Hermano Pedro at least \$3.8 million from late October through February. The payments

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were for vast shipments of food, 20,000 uniforms, six months rent on a warehouse, transportation, fuel and other goods and services the business claimed to have provided to the rebels.

At least one shipment of uniforms, for which the United States paid \$325,000, apparently never existed, and irregularities may also affect food shipments and the warehouse, interviews in Honduras indicate.

"Forget it. There were no uniforms," said a knowledgeable U.S. official when asked about U.S. documents that show a Jan. 2 payment to Hermano Pedro for 20,000 uniforms. "There were military operations the contras were unable to carry out in January because they didn't have clothes. They were out buying jeans, Sergio Valente jeans, in order not to go naked."

Honduran tax records list Hermano Pedro's legal owner as Elvia Ramona Portillo Ponce, the wife of Rodolfo Zelaya, an alternate Honduran congressman from the opposition National Party. But Honduran and U.S. sources said its shadow partners include several colonels in the Honduran armed forces. The colonels, none of whom were reached for comment, appear to share a common military academy background and hold command positions in units that have long worked closely with the contras.

A U.S. official said Zelaya was believed to have asked the

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officers to participate as partners.

Zelaya missed several appointments with reporters this week. His wife, who insisted she had only lent her name to the business, said Zelaya was suffering from a nervous condition, had collapsed in the store Tuesday, and was seeking medical attention.

Reached by phone late Wednesday, Zelaya said: "I don't have anything to do with the United States, and I don't want to talk about this thing with reporters."

"Business matters are confidential," he said. "This is Honduras where free enterprise is permitted."

Zelaya declined comment when asked if Honduran military officers were partners in his wife's business.

Capt. Roberto Acosta, a spokesman for the Honduran armed forces, said in a phone interview Thursday that his office had no knowledge of military participation in the Hermano Pedro operation.

"We are making the necessary consultations now to define the status of the Supermercado Hermano Pedro," Acosta said.

How long Hermano Pedro has been a major*contra*supplier is not clear. Last October, it began charging the contras \$3,000 a month for the rent of a warehouse, U.S. records indicate.

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Until then, the contras had run their own Tegucigalpa warehouse and supply operation from several field tents pitched on a private farm known as La Quinta on Tegucigalpa's outskirts.

Honduran newspapers and by wire services at the time.

The soldiers transferred the*contra*supplies to a nearby Honduran military installation, the Nicaraguan source said. Since then, deliveries of food, ammunition and other supplies to the contras have been organized from that and other Honduran military installations, the Nicaraguan and a U.S. source said.

Honduran military trucks and other equipment have also been used to assist the*contra*supply effort, according to U.S. officials.

The warehouse, ground transportation and other services for which Hermano Pedro has charged the contras appear to correspond to services quietly provided during the same period by the Honduran military.

Alberto Lopez, a businessman familiar with Tegucigalpa's

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warehouse market, said only a handful of city warehouses are

large and modern enough to merit a \$5,000 monthly rental.

Hermano Pedro's food shipments also have raised questions. The market's food charges, according to U.S. records, were \$296,000 in October, \$1.5 million in November, \$478,000 in January and \$390,000 in February. Fuel and ground transport costs were included in the billing, the documents indicate.

During the same period, however, U.S. records indicate that the San Jorge Bazar, a wholesaler based near the border in Danli, 45 miles east of Tegucigalpa, also delivered vast quantities of food to numerous*contra*camps, including the contras' main hospital at Aguacate, 115 miles northeast of the capital.

The San Jorge Bazar's manager said in an interview he believed he had become the contras' principal food supplier because of his low prices and efficient accounting methods.

A U.S. source said the officers involved in Hermano Pedro appeared to be the same officers whose units are operating most closely with the contras.

The same source suggested that U.S. officials have tolerated the Hermano Pedro operation because it provided a way to reward Honduran military officers for their cooperation with

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the rebels.

U.S. officials said that when the CIA managed the*contra* war, Honduran military cooperation was rewarded with direct payoffs to key officers. Congress barred the CIA from direct involvement with the rebels in 1984.

The U.S. official said the appropriation last year of overt "humanitarian*aid" to the contras had greatly complicated the system of payoffs to the officers, and that anomalies surrounding Hermano Pedro's dealings had apparently been tolerated as a way of continuing the hidden payoffs.

"You can't exactly offer this as a line item to the U.S. Congress," the official said. "The officers who were getting a percentage before are not going to perform the same services for nothing. You have to find a way to disguise those payoffs."

The official said the amounts involved are "peanuts for what you're getting."

During the 22 months that Gen. Walter Lopez was head

official said that after new military leadership nudged Lopez from command in late January the military increased its cooperation.

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"After Lopez was kicked out they said 'We're going to give more help to the contras,' " the official said. "So what they decided to do was to take as much of the \$27 million as they could get."

Hernando Pedro's windfall, however, was not reported to Honduran tax authorities. The shop declared 1985 sales of less than \$50,000 to Tegucigalpa's municipal sales tax authority Jan. 14, records indicate. The company paid the equivalent of \$413 in taxes based on that declaration.

The company's \$2.3 million in sales to the contras during the last three months of 1985 alone obligated it to pay 1986 taxes of \$12,600, a tax official said.

Honduran tax officials said they were opening an

investigation to determine whether the individuals involved had also underestimated their incomes on federal tax records.

ADDED TERMS: probe profile business honduras*aid*guerrilla
nicaragua finance cost us
END OF DOCUMENT.